

Raising the Minimum Wage Means Raising Unemployment

Six Nebraska state senators have called for raising the state minimum wage from the current \$7.25 rate. The senators-Omaha's Jeremy Nordquist, Tanya Cook, Sara Howard, Heath Mello, Rick Kolowski, and Malcolm's Ken Haar-did not recommend a specific increase, instead asking the federal government to raise the rate and promising legislation next year to do the same in the Unicameral. Nebraska's minimum wage is the same as the federal rate.[\[1\]](#)

The minimum wage increased in 2009, and in February President Obama proposed to raise it further to \$9 an hour and index future increases to inflation.[\[2\]](#) While minimum wage proponents are well-meaning, economic reality shouldn't be ignored. A vast majority of economists agree that increasing the minimum wage puts more low-skilled workers out of work.[\[3\]](#) Employers are often unable to pay the high minimum wage without falling back on one of four options:

- 1) Cutting back on employees, thereby increasing unemployment.
- 2) Decreasing the amount of hours employees work, reducing their paycheck despite higher hourly wages.
- 3) Increasing prices to compensate for the higher wages, hurting consumers and likely hurting business and possibly forcing employer to reduce the number of employees; or going out of business altogether.
- 4) Automating the jobs performed by low-skilled workers or keeping only the most productive high-skilled workers, increasing unemployment for the low-skilled workers.[\[4\]](#)

Even progressive economist Paul Krugman has noted the detrimental effects of a higher minimum wage, saying in a 1998 article "Any Econ 101 student can tell you [...] The higher wage reduces the quantity of labor demanded, and hence leads to unemployment." Krugman even criticized proponents who "want to believe that the price of labor-unlike that of gasoline or Manhattan apartments-can be set based on considerations of justice, not supply and demand, without unpleasant side effects."[\[5\]](#)

To put it simply, increasing the minimum wage from \$7.25 to \$9 an hour like the President wants to do would mean companies will not hire anyone whose productivity

equals less than \$9 an hour.[\[6\]](#)

It should also be noted that while many proponents contend minimum wage increases are necessary to give poor families a "living wage;" research suggests very few adults actually try to support families on just minimum wage. The Bureau of Labor Statistics shows that roughly 1.8 million hourly employees earned the federal minimum in 2010. Of these, 49 percent were teenagers or young adults under 24 years old, and the average income for the families of the teenagers in this group is nearly \$70,600, far from the federal poverty level. Of all minimum wage workers, only 4.7 percent match the description of an adult head of household working on minimum wage full-time and trying to raise a family.[\[7\]](#)

The effects of increasing the minimum wage are most visible in among the lowest-skilled workers, particularly teenagers. When the minimum wage increased in three stages from \$5.15 in 2007 to the current \$7.25 in 2009-an increase of 41 percent-the unemployment rate for 16-19 year olds increased from 16 percent to 26 percent, even when controlling for the changes in general unemployment that occurred at the same time. Also, for the three stages of increase between 2007 and 2009, each staged increase was accompanied by at least a two percent growth in teenage unemployment.[\[8\]](#) Similarly, a comparison of states with minimum wages above the federal \$7.25 level showed that the 19 states above the federal level had average teenage unemployment of 25.2 percent, while those at the federal level had teenage unemployment of only 21.5 percent.[\[9\]](#) These impacts are more pronounced in the black community, where teenage unemployment was 43 percent this past February.[\[10\]](#) High teenage unemployment has long-term implications beyond teens not having spending money; the lack of jobs means these low-skilled workers will not have the opportunity to gain experience and enhance their job skills, which could hurt future employment prospects. As economist Walter Williams noted, "a high minimum wage forbids low skilled workers to pay for job training in the form of a lower beginning wage."[\[11\]](#) Some studies have even drawn a correlation between higher teenage unemployment and higher teenage crime rates.[\[12\]](#)

A higher minimum wage not only leads to a reduction in the workforce, but also hinders future employment and impedes current employers from rewarding certain employees for exceptional work. Tom Negley, owner of a frozen yogurt shop in Ralston that employs largely high school and college-aged students, said, "We need to have the ability to pay someone that has worked hard and performed well a higher wage, and a higher minimum wage would limit us from doing that. It could also make us have to let some people go, especially if it was raised to \$9 an hour."[\[13\]](#)

Greater unemployment is the most evident result of minimum wage increases, but numerous other negative effects may also result. Indirect consequences include longer durations of unemployment for low-wage workers, encouraging employers to cut worker training programs, and encouraging employers to hire illegal immigrants and engage in "under-the-table" worker payments.[\[14\]](#) Another effect is that due to a reduced labor force, productivity will decrease, lowering the supply of goods and thereby increasing

the prices of those goods, hurting all consumers, especially the poor.^[15]

Economist Henry Hazlitt once observed that government "cannot make a man worth a given amount by making it illegal for anyone to offer him less. You merely deprive him of the right to earn the amount that his abilities and situation would permit [...] In brief, you substitute a low wage for unemployment."^[16] That observation is still true. Raising the minimum wage would be detrimental to workers, employers, and consumers alike and could be a real blow to a stagnant economy. In the end, the population intended to help will be hurt the most.

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[1] Associated Press, "State Sen. Nordquist to propose higher state minimum wage," July 25, 2013. Accessed July 29, 2013, <http://www.omaha.com/article/20130725/NEWS/130729313/1694>.

[2] Tami Luhby, "The impact of a \$9 minimum wage," *CNNMoney*, February 13, 2013. Accessed July 29, 2013, <http://money.cnn.com/2013/02/12/news/economy/obama-minimum-wage/index.html>.

[3] David Boaz, "Reporting the Minimum Wage," Cato Institute, July 24, 2009. Accessed July 29, 2013, <http://www.cato.org/blog/reporting-minimum-wage>

[4] Doug Bandow, "Raising Minimum Wage Will Hurt More than Help," Cato Institute, April 9, 2013. Accessed July 29, 2013, <http://www.cato.org/publications/commentary/raising-minimum-wage-will-hurt-more-help>.

[5] Paul Krugman qtd. in David Henderson, "Krugman and a Critic on the Minimum Wage," Library of Economics and Liberty, February 16, 2013. Accessed

July 29, 2013, http://econlog.econlib.org/archives/2013/02/krugman_and_a_c.html.

[6] Steve Chapman, "The Push For a Higher Minimum Wage Ignores Economic Reality," *Reason Magazine*, February 21, 2013. Accessed July 29, 2013, <http://reason.com/archives/2013/02/21/minimum-wage-and-economic-reality>.

[7] Mark Wilson, "The Negative Effects of Minimum Wage Laws," Cato Institute, September 2012. Accessed July 29, 2013, <http://www.downsizinggovernment.org/labor/negative-effects-minimum-wage-laws>.

[8] Mark J. Perry, "Let's review the adverse effects of raising the minimum wage on teenagers when it increased 41% between 2007 and 2009," American Enterprise Institute, February 16, 2013. Accessed July 29, 2013, <http://www.aei-ideas.org/2013/02/lets-review-the-adverse-effects-of-raising-the-minimum-wage-on-teenagers-when-it-increased-41-between-2007-and-2009/>.

[9] Robert P. Murphy, "I Get Empirical on Minimum Wage," February 16, 2013. Accessed July 29, 2013, <http://consultingbyrpm.com/blog/2013/02/i-get-empirical-on-minimum-wage.html>. Nebraska has the lowest teenage unemployment at 12.4 percent.

[10] Bonnie Kavoussi, "Black Teen Unemployment Rate Rises To 43 Percent In February," *Huffington Post* March 8, 2013. Accessed July 29, 2013, http://www.huffingtonpost.com/2013/03/08/black-teen-unemployment_n_2836816.html.

[11] Walter Williams, "Government Sanctioned Restraints that Reduce Economic Opportunities for Minorities." *Policy Review*, No. 2 (I 977). p. 11, qtd. in Roger Koopman, "The Minimum Wage: Good Intentions, Bad Results," *The Freeman*, March 1, 1988. Accessed July 29, 2013, http://www.fee.org/the_freeman/detail/the-minimum-wage-good-intentions-bad-results/#ixzz2aSFzb8WF

[12] Mark Wilson, "The Negative Effects of Minimum Wage Laws," Cato Institute, September 2012. Accessed July 29, 2013, <http://www.downsizinggovernment.org/labor/negative-effects-minimum-wage-laws>.

[13] Author interview with Tom Negley, July 29, 2013.

[14] Mark Wilson, "The Negative Effects of Minimum Wage Laws," Cato Institute, September 2012. Accessed July 29, 2013, <http://www.downsizinggovernment.org/labor/negative-effects-minimum-wage-laws>.

[15] Joe Salerno, "The Indirect Effects of Raising the Minimum Wage," Ludwig

von Mises Institute, November 10, 2006. Accessed July 29, 2013,<http://archive.mises.org/5874/the-indirect-effects-of-raising-the-minimum-wage/>.

[16] Henry Hazlitt, *Economics in One Lesson*. (Auburn, Alabama: Ludwig von Mises Institute, 1946), 116. Accessed July 29, 2013,http://mises.org/books/economics_in_one_lesson_hazlitt.pdf.

